

Message Text

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PAGE 01 STATE 087864
ORIGIN EB-08

INFO OCT-01 EA-10 ISO-00 JUSE-00 COME-00 L-03 /022 R

DRAFTED BY EB/IFD/BP:S M BRATTAIN:COMM/PTO:S SCHLOSSER:BT
APPROVED BY EB/IFD/BP:HARVEY J. WINTER
EA/PHL:J R SARTORIUS
COMM/PTO:M KIRK
JUSTICE:J DAVIDOW (INFO)

-----011939 061145Z /10

R 052309Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY MANILA

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E.O. 11652: GDS

TAGS: EINV

SUBJECT: REVISION OF PHILIPPINE PATENT LAW

REF: (A) STATE 039285; (B) MANILA 2351;
(C) 76 STATE 177103

SUMMARY: USG COMMENTS ON NEW PHILIPPINE PATENT DECREE NO.
1263 FOR PRESENTATION TO APPROPRIATE GOP OFFICIALS.

1. THE U.S. PATENT AND TRADEMARK OFFICE (PTO) REVIEWED
THE NEW PHILIPPINE LEGISLATION AND FOUND IT TO BE IN LARGE
MEASURE UNCHANGED FROM THE DRAFT ON WHICH IT PREVIOUSLY
COMMENTED. EARLIER COMMENTS REMAIN UNCHANGED (SEE REFTEL
C N.B. SECTIONS IN THE OFFICIAL DECREE ARE ONE NUMBER LESS
THAN IN THE DRAFT, THUS COMMENTS ABOUT SECTION 34 IN THE
DRAFT REFER TO SECTION 33 IN THE OFFICIAL TEXT.) FOLLOW-
ING ARE ADDITIONAL COMMENTS ON NEW FEATURES OF DECREE NO.

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PAGE 02 STATE 087864

1263:

2. SECTION 33-C(2) OF THE LAW HAS NO COUNTERPART IN THE
DRAFT DECREE. IT LISTS A NUMBER OF LICENSING CONDITIONS
AND RESTRICTIONS THAT WILL NOT BE PERMITTED IN TECHNOLOGY
LICENSES. IT SHOULD BE POINTED OUT TO PHILIPPINE OFFI-
CIALS THAT SOME OF THESE CONDITIONS CAN ASSIST THE FLOW OF

TECHNOLOGY TO THE PHILIPPINES. THEY SHOULD BE PROHIBITED ONLY WHEN THE CIRCUMSTANCES SURROUNDING THE LICENSE MAKE IT CLEAR THAT ITS OVERALL EFFECT IS TO IMPEDE TECHNOLOGY TRANSFERS.

3. PARAGRAPH (A) OF THE SECTION CONCERNS TYING ARRANGEMENTS. ORDINARILY, TYING SUPPRESSES COMPETITION AND SHOULD NOT BE PERMITTED. BUT THIS IS NOT ALWAYS TRUE. NEW TECHNOLOGY SOMETIMES FAILS BECAUSE RELIABLE REPLACEMENT PARTS AND SKILLED TECHNICIANS NEEDED TO KEEP THE INVENTION OPERATING PROPERLY CAN BE SUPPLIED ONLY BY THE PATENT OWNER OR HIS SUBCONTRACTOR. IN SUCH CASES, IT IS REASONABLE FOR THE PATENT OWNER TO RELY ON TYING ARRANGEMENTS TO INSURE SUCCESSFUL COMMERCIALIZATION. AS PARTS AND TECHNICIANS BECOME AVAILABLE FROM OTHER SOURCES, TYING ARRANGEMENTS LOSE THEIR JUSTIFICATION.

4. WE ARE NOT REALLY SURE WHAT IS MEANT BY "STRUCTURE" LIMITATIONS IN PARAGRAPH (A). PERHAPS THE TERM REFERS TO LICENSES PERMITTING MANUFACTURE OF SOME MODELS OR FORMS OF THE INVENTION, BUT NOT OTHERS. IF SO, THE LIMITATION RAISES THE SAME LEGAL CONSIDERATIONS AS FIELD OF USE LICENSES UNDER OUR LAW. OUR COURTS RECOGNIZE THAT FIELD OF USE LICENSES ARE OFTEN NEEDED TO PERMIT OR ENCOURAGE COMPETITION. SMALL-SCALE MANUFACTURING LICENSEES CAN LIMITED OFFICIAL USE

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PAGE 03 STATE 087864

OFTEN ONLY SUCCEED BY OFFERING A LIMITED PRODUCT LINE IN WHICH THEY HAVE EXCLUSIVE RIGHTS. A LIMITED LICENSE FOR THEM LEAVES OTHER USES OF THE INVENTION OPEN TO OTHER LICENSEES.

5. PARAGRAPH (E) CONCERNS A PRACTICE THAT SOMETIMES PROMOTES COMPETITION. A LICENSOR MAY FIND HIMSELF UNABLE TO PRODUCE PARTS OR COMPONENTS NEEDED TO MANUFACTURE THE INVENTION, OR IS UNABLE TO PRODUCE ENOUGH OF THEM TO SATISFY A LOCAL MARKET. QUITE LOGICALLY, HE SHOULD BE ABLE TO LICENSE THEIR MANUFACTURE FOR HIS OWN USE. THE ALTERNATIVE -- NO LICENSING, AND CONSEQUENTLY, NO LOCAL MANUFACTURE OF THE PATENTED INVENTION -- IS FAR LESS DESIRABLE.

6. WE ARE NOT SURE IF PARAGRAPH (F) APPLIES TO NON-EXCLUSIVE GRANTBACK LICENSES. IT SHOULD NOT, AS THEY ARE NOT ANTI-COMPETITIVE IN THEMSELVES. A NON-EXCLUSIVE GRANTBACK LICENSE STILL ENABLES THE INVENTOR OF THE IMPROVEMENT TO LICENSE IT TO OTHERS THAN HIS LICENSOR. THUS, IT PROMOTES RATHER THAN DISCOURAGES INVENTIVENESS. OF COURSE, EXCLUSIVE GRANTBACK LICENSES ARE MORE LIKELY TO BE ANTICOMPETITIVE.

7. PARAGRAPH (G) MAKES SENSE IF IT REFERS ONLY TO THE MANDATORY OR FORCED LICENSING OF UNWANTED PATENTS IN ORDER TO RECEIVE A LICENSE UNDER DESIRED PATENTS. BUT OFTEN LICENSEES WILLINGLY ACCEPT A LICENSE FOR A PACKAGE OF PATENTS, KNOWING THAT THEY MAY NOT PRACTICE THE INVENTIONS PROTECTED BY SOME OF THEM. THE CONVENIENCE OF CALCULATING ROYALTIES WITHOUT WORRYING ABOUT WHICH PATENTS COVER THE LICENSEE'S PRODUCT OR PROCESS CAN MAKE VOLUNTARY PACKAGE ARRANGEMENTS MUTUALLY DESIRABLE.

8. PARAGRAPH (H) OVERLOOKS THE FACT THAT EXPORT RESTRICTIONS MAY BE NEEDED IF A PATENT IS TO BE LICENSED AT ALL. A NATIONAL REQUIREMENT TO LICENSE EXPORTS WILL PREVENT A LIMITED OFFICIAL USE

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PAGE 04 STATE 087864

PATENT OWNER FROM GRANTING EXCLUSIVE LICENSES IN OTHER COUNTRIES TO WHICH THE PRODUCT WILL BE EXPORTED. THE INABILITY TO GRANT EXCLUSIVE LICENSES ELSEWHERE WILL CERTAINLY DISCOURAGE TECHNOLOGY TRANSFERS. ALSO, LABOR COSTS IN A DEVELOPING COUNTRY MAY BE SO LOW THAT THE EXPORT OF PATENTED PRODUCTS WILL UNDERCUT LICENSOR'S MARKET IN HIS OWN COUNTRY.

(9) PARAGRAPH (I) WILL PROBABLY PREVENT PATENT ABUSES, DEPENDING ON HOW STRICTLY OR LIBERALLY IT IS APPLIED. THE BENEFITS IT PROVIDES, HOWEVER, MIGHT BE OUTWEIGHED BY THE DISCOURAGING EFFECT IT WILL HAVE ON BOTH FOREIGN AND PHILIPPINE INVENTORS AND BUSINESSMEN. THEY WILL NOT BE TOO INTERESTED IN INVENTING AND LICENSING IF THEY DON'T EVEN KNOW WHAT RULES WILL BE USED TO JUDGE LICENSES. IT WOULD BE A BETTER PROVISION IF IT WERE REPHRASED: "OTHER CLAUSES WITH UNREASONABLY RESTRICTIVE EFFECTS."

10. SECTION 35-B(3) CONCERNS MAXIMUM ROYALTY RATES. THE DRAFT DECREE ILLOGICALLY CALLED FOR THE EVEN DIVISION OF ROYALTIES UNDER COMPULSORY LICENSES WHENEVER INTERDEPENDENT PATENTS ARE INVOLVED. THE OFFICIAL DECREE CHANGES THIS. IT CALLS FOR THE DIVISION OF ROYALTIES IN PROPORTION TO THE EXTENT THE PATENTS ARE USED, WITH PREFERENCE GIVEN TO THE HOLDER OF THE OLDEST PATENT. THIS TWO-PART TEST SOUNDS FAIRER. HOWEVER, IT IS INTERNALLY INCONSISTENT AND WILL BE IMPOSSIBLE TO APPLY. WHY SHOULD PREFERENCE BE GIVEN TO THE HOLDER OF THE OLDEST PATENT? SHOULDN'T THE DIVISION OF ROYALTIES DEPEND ONLY ON THE EXTENT TO WHICH THE INVOLVED PATENTS ARE USED? WHAT DOES IT MEAN TO GIVE PREFERENCE TO THE HOLDER OF THE OLDEST PATENT?

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PAGE 05 STATE 087864

11. THE LAST SENTENCE OF SECTION 75 OF THE OFFICIAL DECREE AUTHORIZES THE DIRECTOR TO CHARGE HIGHER FEES FOR DEVELOPED COUNTRY NATIONALS. THIS IS CLEARLY VIOLATIVE OF THE PARIS CONVENTION'S NATIONAL TREATMENT REQUIREMENT. SUCH A PROVISION WILL CERTAINLY DISCOURAGE THE IMPORTATION

OF FOREIGN TECHNOLOGY INTO THE PHILIPPINES, ESPECIALLY FROM THE DEVELOPED COUNTRIES WHICH ARE MORE LIKELY TO HAVE WHAT THE PHILIPPINES NEED. REFTEL C MENTIONS OTHER PROVISION WHICH CONTRAVENE THE PARIS CONVENTION.

12. EMBASSY IS REQUESTED TO CONVEY THESE COMMENTS ALONG WITH THOSE OF REFTEL C TO APPROPRIATE GOP OFFICIALS. A JOINT APPROACH WITH OTHER INTERESTED EMBASSIES AND COOPERATION WITH SUCH PRIVATE GROUPS SUCH AS THE AMERICAN CHAMBER OF COMMERCE MAY BE UNDERTAKEN AT THE EMBASSY'S DISCRETION. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PATENT LAW
Control Number: n/a
Copy: SINGLE
Draft Date: 05 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE087864
Document Source: CORE
Document Unique ID: 00
Drafter: S M BRATTAIN:COMM/PTO:S SCHLOSSER:BT
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780148-0884
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780488/aaaacxck.tel
Line Count: 192
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: caf0edb5-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 39285, 78 MANILA 2351, 76 STATE 177103
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3061895
Secure: OPEN
Status: NATIVE
Subject: REVISION OF PHILIPPINE PATENT LAW
TAGS: EINV, RP
To: MANILA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/caf0edb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014